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Poultry and Products

Avian Influenza: Impact of Outbreaks on European Poultry and Meat Markets

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Report Highlights:

After the confirmation, on February 26, 2006, of an outbreak of AI H5N1 on a turkey farm in the French department of Ain, 43 countries have put total or partial bans on poultry exports from France. This affects about a third of poultry exports from France, which is Europe's largest poultry exporter. Consumer reaction on the death of wild birds from this AI strain has reduced poultry consumption by more than half in Greece and Italy, while neighboring countries had more moderate decreases in poultry consumption. Northern European Member States have barely seen any reduction in poultry consumption. EU poultry producers are reacting to price decreases that are below cost of production by limiting placings.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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The update of EU-25 poultry and pork PSD's in this report are the result of the collaboration of the following EU FAS colleagues in the member states in an informal FAS EU wide impact survey:

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The goal of this report is to estimate the impact on European poultry and meat markets as a result of outbreaks of Avian Influenza (AI) H5N1 inside the European Union. The first case being an outbreak in a commercial turkey farm in France. This report offers updated EU-25 PSD's for broilers, turkey and pork, as recent EU-25 Semi-annual reports didn't anticipate on AI outbreaks in Europe. It should be noted that the numbers in these PSD's are not official USDA numbers, however are revisions of FAS/EU forecasts.

Avian Influenza H5N1 in the EU

Poland is the tenth and most recent EU member state (MS) to report two cases of wild birds, which died from Avian Influenza (AI) H5N1, after Austria, Greece, Italy, France, Germany, Slovenia, Hungary, the Slovak Republic and Sweden. One outbreak of AI H5N1 was reported in a commercial turkey farm in France on February 26, 2006. As a result, 43 countries totally or partially banned poultry exports from France, affecting about one third of French poultry exports. On the German island of Ruegen a cat was also found dead after infection with AI H5N1. Frequent AI H5N1 outbreaks have also been occurring in the EU neighboring countries of Switzerland, Croatia, Bosnia, Bulgaria, Romania, Turkey and Ukraine since October 2005.

AI impact on European poultry markets

The first outbreaks in October 2005 in the EU's vicinity led to a short-lived decrease in poultry consumption, mainly in the adjacent MS of Greece, Italy and, to a minor extent, France. However, the resulting EU-wide decrease in poultry prices resulted in an increase in poultry meat purchases in North-Western Europe and during the following end-of-year holiday period, thus annihilating the impact on EU-25 PSD's in 2005. Placings of broiler chicks in December of 2005 topped September placings after a decline in October and November. Outbreaks within the EU, as well as the exports ban on Europe's largest poultry meat exporter France, are negatively impacting the EU market for 2006.

An informal EU-wide survey by EU FAS posts recorded estimated impacts on individual MS consumption from the AI scare, assuming that the scare would last 3 months or at least not beyond the start of the summer holidays. It was also assumed that decreases in EU poultry imports would offset part of the decrease in domestic consumption, as well as the whole decrease in EU poultry exports because of the decrease in prices and lead time in lowering production. The calculation resulted in a decrease in EU consumption of broilers of 140 thousand MT and of turkey of 45 thousand MT, with more than half of the decreases in consumption in Italy. In Italy and Greece, poultry consumption was reported to have decreased by more than 50 percent, while, in a decreasing order of impact, decreases in poultry consumption were registered in the Slovak Republic, France, Austria, Germany, Poland, the Benelux and Slovenia. In several MS higher poultry consumption than in 2005 was still forecast. Estimates of the decrease in French exports for broilers was 20 thousand MT and for turkey 10 thousand MT. Placings of chicks were decreasing again in February 2006 and are expected to further significantly decrease in March, as poultry producer prices have fallen below cost of production.

While under existing legislation, MS were already allowed to offer some limited support to their poultry sectors; the EC will discuss the possibility for additional policy measures at EU level. The only market tool at the disposal of the EC currently is export refunds, but it is considered to be inadequate in a difficult market situation like this. The two increases in export refunds from €24 to €30/100Kg were ineffective and further increases are not expected to be more helpful. The EC Eggs and Poultry Management Committee will consider the possibility of crisis Private Storage Aid, similar to the measures taken in

response to the BSE crisis for beef. Italy and France have specifically requested EC measures to mitigate the economic impact of the AI outbreaks.

Broiler

Country:	EU25					
Commodity:	Meat, Broiler (1000MT CWE)					
Year	2004		2005		2006	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]
Beginning Stocks	0	0	0	0	0	0
Production	7,656	7,627	7,670	7,625	7,690	7,540
Imports	441	466	440	485	460	450
TOTAL SUPPLY	8,097	8,093	8,110	8,110	8,150	7,990
Exports	789	813	780	740	780	720
TOTAL Dom. Consumption	7,308	7,280	7,330	7,370	7,370	7,270
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	8,097	8,093	8,110	8,110	8,150	7,990

Source: EU FAS Offices

Turkey

Country:	EU25					
Commodity:	Meat, Turkey (1000MT CWE)					
Year	2004		2005		2006	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]
Beginning Stocks	0	0	0	0	0	0
Production	2,038	2,030	2,030	1,945	2,035	1,865
Imports	84	88	105	100	115	80
TOTAL SUPPLY	2,122	2,118	2,135	2,045	2,150	1,945
Exports	191	205	210	185	210	170
TOTAL Dom. Consumption	1,931	1,913	1,925	1,860	1,940	1,775
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2,122	2,118	2,135	2,045	2,150	1,945

Source: EU FAS Offices

Impact of poultry meat substitution on other EU meat sectors

The decrease in poultry consumption is expected to lead to a substitution for other meat, or, more broadly, other protein sources. While pork consumption is expected to benefit most from poultry meat substitution, increases in consumption of fish, sheep and goat meat, cheese, a little bit of beef and even eggs are also expected. It is also expected that some decrease in poultry consumption will fail to be replaced. This is expected to differ between MS. Greece and Italy are expected to see a larger increase in fish and lamb consumption, while in landlocked new member states pork is expected to take most of the poultry substitution. A calculated estimate resulted in a substitution for pork of 120 thousand MT out of a total of 185 thousand MT of poultry. As a result, EU hog slaughter is expected to

slightly, as reflected in current EU hog slaughter forecasts. As a result of the substitution of pork for poultry, EU-25 PSD's for pork and swine¹ were also updated.

Pork

Country	EU-25					
Commodity	Pigmeat (1000 MT CWE)(1000 HEAD)					
	USDA official [old]	Posts estimates [new]	USDA official [old]	Posts estimates [new]	USDA official [old]	Posts estimates [new]
Market Year Begin	2004		2005		2006	
Slaughter (Reference)	241,816	241,154	240,000	239,685	242,200	242,500
Beginning Stocks	24	24	0	0	0	0
Production	20851	21192	20720	21200	20900	21520
Extra EU25 imports	20	20	20	19	20	15
TOTAL SUPPLY	20895	21236	20740	21219	20920	21535
Extra EU25 exports	1436	1463	1430	1380	1450	1450
TOTAL Domestic Use	19459	19773	19310	19839	19470	20085
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	20895	21236	20740	21219	20920	21535

Source: EU FAS Offices

Swine

Commodity	Animal Numbers, Swine (1000 Head)					
	USDA official [old]	Posts estimates [new]	USDA official [old]	Posts estimates [new]	USDA official [old]	Posts estimates [new]
Market Year Begin	2004		2005		2006	
TOTAL Beginning Stocks	152,793	152,793	151,657	151,143	152,500	153,100
Sow Beginning Stocks	14,590	15,167	14,282	14,880	14,350	14,900
Production (Pig Crop)	252,316	249,245	252,000	251,040	253,700	252,670
Extra EU25 imports	0	1	0	1	0	1
TOTAL SUPPLY	405,109	402,039	403,657	402,184	406,200	405,771
Extra EU25 exports	372	446	400	800	400	700
Sow Slaughter	3,803	3,502	3,730	3,670	3,720	3,700
Total Slaughter	241,816	241,154	240,000	239,685	242,200	242,500
Loss	11,264	9,296	10,757	8,599	10,600	8,571
Ending Inventories	151,657	151,143	152,500	153,100	153,000	154,000
TOTAL DISTRIBUTION	405,109	402,039	403,657	402,184	406,200	405,771

Source: EU FAS Offices

Impact on the EU grain and feed market

¹ Any potential impact on German swine/pork exports from the latest Classical Swine Fever outbreak hasn't been taken into account – see GAIN GM6010

Some impact on EU grain and feed markets is anticipated, mainly a substitution effect between wheat and corn. With anticipated increasing demand for pork, more swine feed will be needed. Swine have a lower grain conversion rate than poultry, meaning the total amount of feed needed would remain about the same. However, poultry feed has a higher corn ratio than pig feed and a lower wheat ratio. It is expected that wheat consumption will increase, resulting in lower EU ending wheat stocks, and at the expense of corn consumption. A reduction in soy meal use is expected to be another side effect.

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